

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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<b>In the Matter of the Application of Rocky Mountain Power for Authority to Increase Its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations, Consisting of a General Rate Increase of Approximately \$161.2 Million Per Year, and for Approval of a New Large Load Surcharge</b>	)	
	)	<b>Docket No. 07-035-93</b>
	)	<b>Pre-filed Direct</b>
	)	<b>Revenue Requirement</b>
	)	<b>Testimony of</b>
	)	<b>Cheryl Murray</b>
	)	<b>For the Committee of</b>
	)	<b>Consumer Services</b>
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April 7, 2008

1 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

2 A. My name is Cheryl Murray. I am a utility analyst on the staff of the  
3 Committee of Consumer Services (Committee). My business address is  
4 160 East 300 South, Salt Lake City, Utah.

5 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS  
6 DOCKET?**

7 A. Yes, I presented testimony in the Test Year portion of this docket.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. My testimony (1) presents the Committee's overall revenue requirement  
10 recommendation in this case, which is explained in greater detail in the  
11 testimony of Committee witness, Donna DeRonne; (2) introduces the  
12 Committee's expert witnesses that sponsor various adjustments in specific  
13 revenue requirement areas (cost of capital, net power costs, revenue, rate  
14 base, etc.); and (3) addresses policy issues that the Committee  
15 recommends the Public Service Commission (Commission) adopt.

16 **Q. PLEASE DESCRIBE THE COMMITTEE'S OVERALL  
17 RECOMMENDATION FOR THE APPROPRIATE REVENUE  
18 REQUIREMENT IN THIS DOCKET.**

19 A. Based on the Committee's analysis of Rocky Mountain's Power's (RMP or  
20 Company) testimony and evidence provided in this case to date, we  
21 recommend that the Company's revenue requirement for the Test Period  
22 2008 should be increased by \$8,466,169. In other words, this

23 recommendation reduces the Company's requested \$99.8 million increase  
24 by \$91.3 million to approximately \$8.5 million.

25 **Q. PLEASE INTRODUCE THE COMMITTEE'S EXPERT WITNESSES**  
26 **THAT PROVIDE REVENUE REQUIREMENT TESTIMONY IN THIS**  
27 **PROCEEDING.**

28 A. Five Committee witnesses provide expert testimony on revenue  
29 requirement issues in this case.

30 Ms. DeRonne of Larkin and Associates, PLLC, sponsors testimony  
31 summarizing the Committee's overall recommended increase in current  
32 revenue requirement of \$8,466,169. In her testimony, she also  
33 recommends specific adjustments in the area of operating expense, taxes  
34 and rate base. The overall impact of Ms. DeRonne's adjustments, under  
35 the revised protocol method, is a reduction to the Company's requested  
36 revenue requirement of approximately \$21.5 million (Utah basis).

37 Mr. Helmuth Schultz, also of Larkin and Associates, PLLC, provides  
38 testimony focusing primarily on employee and compensation issues. The  
39 overall impact of his recommended adjustments, under the revised  
40 protocol method, is a reduction to the Company's requested revenue  
41 requirement of approximately \$12.8 million (Utah basis).

42 Mr. Daniel Lawton earlier submitted testimony in the cost of capital  
43 phase of this docket recommending that the Company's rate of return on  
44 equity be set at 9.85% and accepting the Company's proposed capital  
45 structure. Mr. Lawton also recommended that the cost of debt be reduced

46 to 6.27%. Mr. Lawton's weighted cost of capital recommendation of  
47 8.07% has been reflected in Ms. DeRonne's overall revenue requirement  
48 results. Based on the Company's requested rate base, and under the  
49 revised protocol method, the impact of Mr. Lawton's recommendations  
50 reduces the Company's revenue requirement request by \$31,608,230  
51 (Utah basis).

52 Mr. Randall J. Falkenberg and Mr. Philip Hayet recommend  
53 approximately 30 adjustments to Net Variable Power Costs (NVPC)  
54 resulting from a thorough and objective review of the Company's  
55 Generation and Regulation Initiative Decision ("GRID") production cost  
56 model, and various data and assumptions related to the model. These  
57 adjustments are listed in Mr. Falkenberg's Table 1 recommending a  
58 \$25,023,369 revenue requirement reduction (Utah basis).

59 **Q. HAVE THESE EXPERTS WORKED ON BEHALF OF THE COMMITTEE**  
60 **IN PREVIOUS RMP RATE CASES?**

61 A. Yes. These experts have worked together for at least the last three RMP  
62 rate cases. In particular, Ms. DeRonne, Mr. Schultz, Mr. Hayet and Mr.  
63 Falkenberg have worked on variety of cases (e.g., general rate cases,  
64 generation plant certification proceedings, IRP and avoided costs dockets,  
65 excess net power cost/Hunter outage docket, deferred accounting cases,  
66 etc.) since first being retained to address issues in the 1997 Utah rate  
67 case.

68 **Q. HAS THE COMMITTEE RECOMMENDED ANY ADJUSTMENTS TO**  
69 **THE COMPANY'S PROJECTED LEVEL OF CAPITAL SPENDING?**

70 A. No, the Committee has not proposed any adjustments to the Company's  
71 forecasted level of capital investment. The Committee has, however,  
72 recommended adjustments to the Operating and Maintenance (O&M)  
73 expenses associated with a few capital projects. The Committee supports  
74 the Company's need for investment in distribution, transmission and  
75 generation plant. There is needed investment in these areas to ensure  
76 that the Company is able to provide the level of service Utah customers  
77 expect and deserve. Ms. DeRonne will describe the areas where  
78 adjustments to O&M costs are recommended.

79 **Q. THE COMMITTEE HAS RECOMMENDED ADJUSTMENTS TO THE**  
80 **COMPANY'S PROPOSED EMPLOYEE COMPLEMENT IN THE TEST**  
81 **YEAR. PLEASE COMMENT ON THAT ISSUE.**

82 A. Although the Committee is recommending adjustments in the area of  
83 employee complement and labor costs, we want to make clear that we  
84 support the Company's need to have a qualified workforce and adequate  
85 employee levels to provide safe, reliable and high quality service to Utah  
86 customers. It is the Committee's view that Mr. Schultz's recommendations  
87 regarding employee levels are well supported based on the evidence  
88 provided by the Company. Mr. Schultz provides the analysis underlying  
89 his recommendations in his testimony.

90 **Q. DOES THE COMMITTEE HAVE ANY POLICY RECOMMENDATIONS**  
91 **BASED ON THE COMPANY'S FILING?**

92 A. The Committee makes two main policy recommendations for future filings.

93 **Q. PLEASE DESCRIBE THOSE RECOMMENDATIONS.**

94 A. Our first recommendation relates to changes the Company has made to  
95 accounting procedures. While investigating this case, we became aware  
96 the Company has changed the way it normalizes asset basis differences  
97 for deferred income taxes, changing from 40% normalization to 100%  
98 normalization. This change in the accounting procedures was  
99 incorporated in the Company's filing, but was not accompanied by any  
100 supporting testimony notifying parties of the change, or the reason for the  
101 change. The Company merely indicated in Steven McDougal's testimony,  
102 at page 43, that it has implemented full normalization of basis differences  
103 on a prospective basis for purposes of calculating deferred income taxes  
104 on capital additions, with no discussion of why the change is being made,  
105 what was done and approved historically, or what the impact of the  
106 proposed change is on revenue requirement. While the Committee is not  
107 challenging this change in the Company's accounting procedures, it has  
108 also not yet determined its policy on this particular issue. However, my  
109 purpose here is to call attention to the need for supporting testimony and  
110 evidence when the Company alters past accounting practices.

111 The Committee recommends that the Commission require the  
112 Company to explain and support, in direct testimony, any proposed

113 substantive accounting change. This is particularly important if the  
114 change is not required to comply with Generally Accepted Accounting  
115 Principles (GAAP) or other readily known accounting requirements or  
116 guidelines.

117 **Q, WHAT IS THE COMMITTEE'S SECOND POLICY RECOMMENDATION?**

118 A. The Committee's second recommendation relates to the amount and level  
119 of information that the Company provides with its general rate case  
120 applications.

121 In order for parties to effectively analyze and investigate the  
122 Company's filing, adequate information must be provided in a timely  
123 manner. The Company has control of all information upon which it bases  
124 its case, and in order to adequately prepare and support its filing, one  
125 must assume that it utilizes the appropriate data and documents. Based  
126 on this filing and the last general rate case, Docket No. 06-035-21, it is the  
127 Committee's view that having adequate information, such as that  
128 contained in the Master Data Requests (MDRs), at an early stage of the  
129 case is essential. The data requests in the MDRs were created in a  
130 collaborative process based on parties' needs for information to evaluate  
131 the Company's filing. The starting point was data requests that the  
132 Company viewed as the general set of questions that were usually  
133 submitted shortly after the case was filed. There was an agreement  
134 among the parties as to the timing of when the Company would respond to

135 the various MDRs<sup>1</sup>. Through stipulation, the agreement to provide the  
136 MDRs was extended to include this case. There is no agreement to  
137 provide those responses beyond this Docket. It is the Committee's  
138 position that this information is essential as support for the Company's  
139 case and should be required with every application for a general rate  
140 case. The filing should not be deemed complete and the 240 day timeline  
141 should not begin until parties receive that supporting documentation.

142 **Q. IS THERE ANY ADDITIONAL INFORMATION THAT THE COMMISSION**  
143 **SHOULD REQUIRE THE COMPANY TO PROVIDE WITH OR BEFORE**  
144 **IT FILES ITS NEXT GENERAL RATE CASE?**

145 A. Yes. In deriving the cash working capital request in its case, the Company  
146 relied on a lead/lag study that was filed in May 2004 and was conducted  
147 based on information using the fiscal year ended March 31, 2003. Since  
148 that time PacifiCorp has undergone numerous structural and  
149 organizational changes and is under new ownership. The Committee  
150 recommends that the Commission require the Company to file a new  
151 lead/lag study with its next rate case filing utilizing current information, and  
152 that absent such a new lead/lag study, cash working capital not be  
153 allowed in the next general rate case. Ms. DeRonne explains this issue in  
154 more detail in her testimony.

155 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

156 A. Yes.

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<sup>1</sup> The agreement pertained to Docket No. 06-035-21.